

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)
CELSIUS NETWORK LLC, et al.,¹) Chapter 11
Debtors.) Case No. 22-10964 (MG)
) (Jointly Administered)
)

OBJECTION

Now comes the Vermont Department of Financial Regulation (Vermont), through counsel, and objects to the Debtors' Motion for an Order Approving Bid Procedures and for Related Relief, DE# 929 (the Motion). In support of this objection, Vermont states as follows:

INTRODUCTION

1. The above-captioned Celsius debtors commenced these bankruptcy cases by filing voluntary Chapter 11 petitions on July 13, 2022 (Petition Date).
2. Debtors continue to operate their businesses as Debtors in possession pursuant to 11 U.S.C. §§ 1107 and 1108. The cases are being jointly administered pursuant to an Order of this Court dated July 19, 2022. DE # 53.
3. On August 19, 2022, the first meeting of creditors was commenced pursuant to 11 U.S.C. § 341 (the 341 meeting).
4. On August 18, 2022, the United States Trustee filed a Motion for Entry of an Order Directing the Appointment of an Examiner (the Examiner Motion). On September 14, 2022, this Court entered an Order directing the United States Trustee to appoint an examiner. DE #820. On September 29, 2022, the United States Trustee filed a Notice of Appointment. DE #920.

¹ Debtors include Celsius Network LLC, Celsius KeyFi LLC, Celsius Lending LLC, Celsius Mining LLC, Celsius Network Limited, Celsius Networks Lending LLC, and Celsius U.S. Holding LLC. The Debtor's principal place of business is 121 River Street, PH05, Hoboken, New Jersey 07030.

5. On September 29, 2022, Debtors filed the Motion. DE# 929. Through the Motion, Debtors seek approval of a bidding and auction process to sell their entire business.

THE RELIEF REQUESTED IS PREMATURE AND THE MOTION RAISES ISSUES SIMILAR TO THOSE CREATED BY THE MOTION TO SELL STABLECOINS AND MOTIONS RELATIVE TO CUSTODY AND WITHHOLD ACCOUNTS

6. As of the Petition Date, at least 40 state securities regulators were engaged in a multistate investigation arising from, inter alia, concerns about potential unregistered securities activity, mismanagement, securities fraud, and market manipulation by Celsius and its principals. At least six of those states had taken regulatory enforcement action against Celsius as of the Petition date, and several more states have done so since then.²

7. Through the Motion, Debtors seek approval for bid procedures which would lead to the sale of substantially all Debtors' assets. As noted in several objections to Debtors' Motion to Sell Stablecoin (the Stablecoin Motion), the status and ownership of Debtors' most valuable potential asset—the cryptocurrency—has not been determined by the Court and will be addressed at least in part by the Examiner's report which has not yet been completed. Hearing on the Stablecoin Motion has been adjourned to November 1, 2022.

8. Ownership of the "Custody" and "Withhold" accounts likewise remains unresolved. A stipulation entered October 7, 2022, DE # 996, establishes a briefing schedule and contemplates a hearing on the legal issues in early December 2022. That stipulation also notes the outcome of the Examiner's report is crucial to resolving this issue. The Examiner's full report is not due until December 10, 2022.

9. To the extent Debtors' planned asset sale includes the offer or sale of securities in Vermont or the exchange of money, any bidder for the Debtors' assets cannot proceed lawfully without appropriate securities registration and/or licensure as a money transmitter.³ These registration issues have not been addressed adequately by the Motion.

10. Vermont objects to the relief requested by the Motion. First, it is premature. Moreover, as currently drafted, it creates the risk Debtors or a bidder for the assets will operate

² On August 12, 2022, Vermont issued an *ex parte* order directing Celsius to cease and desist the offer and sale of Celsius Earn Accounts to Vermont residents.

³ This Court also cannot confirm a plan which calls for business activity in violation of state law. 11 U.S.C. §§ 959 and 1129(a)(3).

the business in violation of state law and in violation of the Cease-and-Desist Order entered August 12, 2022.

11. Moreover, since the filing of the Stablecoin Motion, Debtors have filed their schedules and statements. Based on information disclosed in the Statement of Financial Affairs (DE# 973), Question 4, insiders withdrew nearly \$18 million in crypto assets during the weeks just before Debtors' June 12, 2022 freeze on crypto asset withdrawals. Some or all those withdrawals could be subject to avoidance and similar legal actions, and some or all of those assets could become property of the estate.

OWNERSHIP AND STATUS OF CRYPTO ASSETS REMAINS UNCLEAR

12. This Court has not yet determined whether or not and to what extent various classes of crypto assets—*e.g.*, Stablecoin, “Custody” accounts, “Withhold” accounts-- held by the Debtors are property of the bankruptcy estate. The Examiner appointed by this Court has not yet issued her report regarding, *inter alia*, the status of various crypto assets. The Court has also not yet entered an Order on Debtors’ Motion to Sell Stablecoin. The status of crypto assets withdrawn by insiders on the eve of the June 12 “freeze” has likewise not been determined. In short, it is premature for this Court to enter any order approving bid procedures until the scope of Debtors’ assets is better understood.

CONCLUSION

For all of the reasons stated herein, Vermont respectfully requests the Court deny the Debtors’ Motion.

Dated: October 13, 2022

Vermont Department of Financial Regulation

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